United Bank of India

Instrument	Amount	Rating	Rating Action
Lower Tier II Bonds	Rs. 250 crore	[ICRA]A+ (Stable)	Re-affirmed; outlook revised from 'Positive' to 'Stable'
Lower Tier II Bonds	Rs. 100 crore	[ICRA]A+ (Stable)	
Lower Tier II Bonds	Rs. 100 crore	[ICRA]A+ (Stable)	
Lower Tier II Bonds	Rs. 200 crore	[ICRA]A+ (Stable)	
Upper Tier II Bonds	Rs. 575 crore	[ICRA]A- (Stable)	
Lower Tier II Bonds	Rs. 300 crore	-	Rating withdrawn

ICRA has reaffirmed the rating for Lower Tier 2 bonds programmes aggregating to Rs. 650 crore[*] of United Bank of India (UBI) at [ICRA]A+ (pronounced ICRA A plus)[†]. ICRA has also reaffirmed the rating for Rs. 575 crore Upper Tier II Bond programme of UBI at [ICRA]A- (pronounced ICRA A minus)[†]. ICRA has also withdrawn the [ICRA]A+ (pronounced ICRA A plus) rating on the Rs. 300 crore Lower Tier II bond programme, as the bank has fully redeemed the instrument on maturity[†]. There is no amount outstanding against the rated instrument. The outlook on the long term ratings of the bank has been revised to 'Stable' from 'Positive'. The revision in outlook reflects the lower possibility of improvement in credit profile of the bank due to its large stock of weak assets and limitations to grow its credit book due to capital constraints.

The rating reaffirmation takes into account Government of India's (GOI) majority ownership (82% as on September 30, 2015), the bank's well established franchise in Eastern and North Eastern regions enabling it to achieve high proportion of low-cost deposits (CASA deposits constituted 40.5% of total deposits on Sep-15) imparting it a favourable liquidity profile. The ratings are constrained due to the bank's weak asset quality (Gross NPA% + 35% restructured assets[‡] of ~13.2% as on Sep-15) and solvency[§] (of 68.8% in Sep-15), and low profitability as a result of high credit provisioning (Return on Assets was 0.19% in H1-2016). Going forward ability of the bank to improve asset quality indicators, improve earnings and mobilize capital to facilitate future credit growth are key rating sensitivities.

UBI's tier I capital as on September 30, 2015 was 7.45% which would need to be increased to meet the 7.625% minimum regulatory tier 1 plus capital conservation buffer (CCB) requirement by March 2016. GoI has in the past supported the bank through regular infusions. The bank is expected to maintain its regulatory capital ratios in the near term either through equity support from GoI or through management of its credit growth and focus on lending to capital efficient segments[**].

As for the bank's asset quality, while the same remains elevated ICRA notes the gradual improvement with gross NPA% declining to 8.9% in Sep-15 against 12.03% in Dec-14 through a combination of recoveries and also through sale of assets to Asset Reconstruction Companies (ARCs). UBI's overall pool of vulnerable assets (Gross NPA% + 35% restructured assets)[3] however remains high at ~13.2% as on Sep-15. ICRA however notes the moderation of the banks NPA generation rate to 2.1% in H1 2016 against 6.7% in FY2015, and the initiatives taken by its management to improve recoveries.

The RBI 'Prompt Corrective Action' restrictions imposed on the bank in December 2013 was removed in March 2015. Such restrictions had resulted in 19% decline in the bank's credit portfolio between September 2013 and March 2015. While lending restriction have been lifted, the bank's credit book declined by 0.8% in H1 2016 to Rs. 66,254 crore as it maintains a cautious lending stance as it focuses on managing recoveries from its large pool of stressed accounts and as it looks to maintain its capitalization profile. Credit growth in the near term for the bank could remain muted until it is able to mobilize additional capital. Over the medium term the bank has to mobilize core equity amounting to a

[*] 100 lakh = 1 crore = 10 million
[†] For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications
[‡] Standard restructured advances excluding SEBs and Air India
[§] Net NPA as % of Net worth
[**] Exposures with high credit ratings and in the retail segment

sizable Rs. 27-30 billion (or ~54-58% of Mar’15 CET or 165-180% of its market capital) by March 31, 2019 in order to meet the proposed enhanced higher capital requirements under BASEL III. ICRA however notes UBIs majority Government of India (GoI) ownership (82% as on September 30, 2015), and GoI’s medium term roadmap for equity infusion of Rs 70,000 crore in PSBs during FY16-FY19.

UBI has reported moderate profit of Rs. 114 crore during H1FY16 (Rs. 110 crore. during H1FY15). Nominal profit led to weak profitability indicators as reflected by PAT/ATA[††] of 0.19% and return on net worth of 4.3% during H1, FY16[‡‡]. The financial profile of the bank remains impacted on account of high credit provisions[§§] which increased to 0.73% in H1 FY16 as against 0.68% during FY15. ICRA expects overall profitability for UBI to remain weak over the next 12-18 months as credit provisioning could remain elevated given the bank’s large pool of restructured advances and NPAs and also as credit growth could be low due to capital constraints.

Bank profile

United Bank of India (UBI) is one of the 14 banks that were nationalised in July 1969. Headquartered in Kolkata, UBI is 82% owned by GOI and is the Convenor of the State Level Bankers’ Committee (SLBC) for the states of West Bengal and Tripura. As on June 30, 2015, UBI had 2,007 branches with more than 75% of these located in E&NE. The bank’s branch demographic profile has a skew in favour of rural and semi-urban areas. Drawing on this network, UBI has built a strong base of low-cost deposits with CASA of 40.5% as on September 30, 2015. UBI has implemented CBS across all its branches and extension counters, covering 100% of its business.

For the financial year ended March 31, 2015 the bank reported a net profit of Rs. 256 on an asset base[***] of Rs. 1,22,434 crores as compared to a net loss of 1,213 crore on an asset base of Rs. 1,24,496 crore for the previous financial year. For H1FY16 the bank reported a profit after tax of Rs. 114 crore against a PAT of Rs. 110 crore during the corresponding period in the previous financial year. As on September 30, 2015, the bank reported capital adequacy was 10.29% (Tier-1: 7.45%; both Basel III), while its Gross NPA was 8.9% and Net NPA was 5.6%.

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[††] Profit After Tax (PAT)/ Average Total Assets (ATA)

[‡‡] Financial ratios are as per ICRA’s computations

[§§] as percentage of average total assets

[***] Adjusted for revaluation reserves

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